

Demographic dividend is the benefit a country gets when its working population outgrows its dependants such as children and old people.

This means there are relatively more hands to earn i.e. higher per capita income leading to higher savings and growth.

However, such rapid growth in labour force is temporary.

This stage of a country's growth starts with a demographic transition. It means a shift from one phase to another.









Improved income and health reduces the infant mortality rate and a baby boom (or population explosion) arises.

This increases the dependency ratio (the number of dependents per income earner).



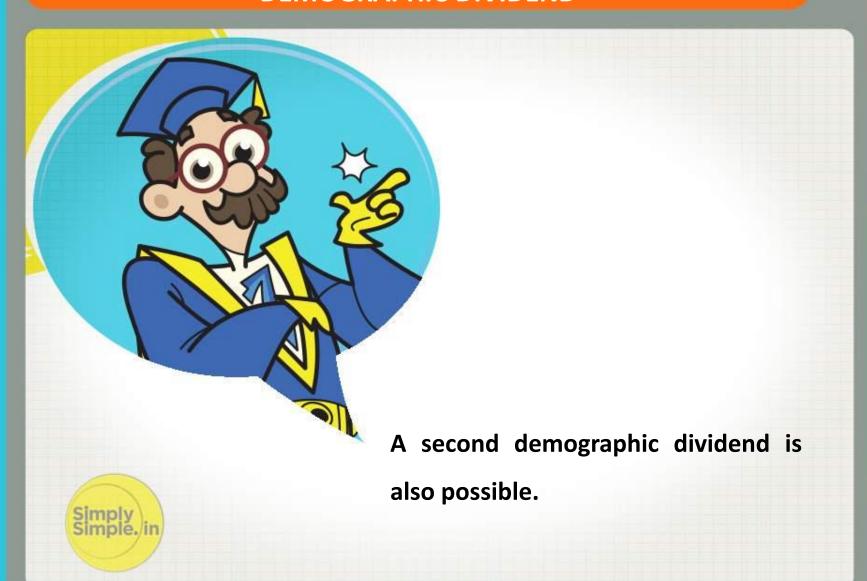


The baby boomers, once regarded as a population curse, grow up to create an unprecedentedly large army of income earners thereby boosting the GDP.

The dependency ratio improves dramatically - there are relatively more hands to earn and fewer mouths to feed.

This is the first demographic dividend.

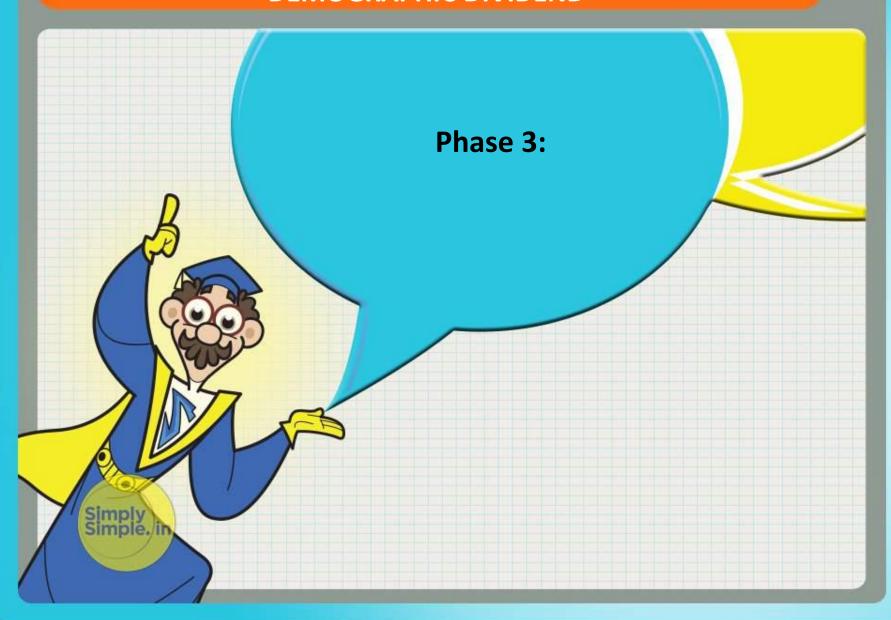
Few Examples: India, Australia, Indonesia etc.



With improved health, baby boomers expect to live long and so save large sums for retirement. This higher saving finances additional investment and accelerates GDP growth.

This is the second demographic dividend. Few Examples: Brazil, China, USA etc.

In short, the first dividend yields a transitory bonus and the second transforms that bonus into greater assets and sustainable development subject to implementation of effective policies.



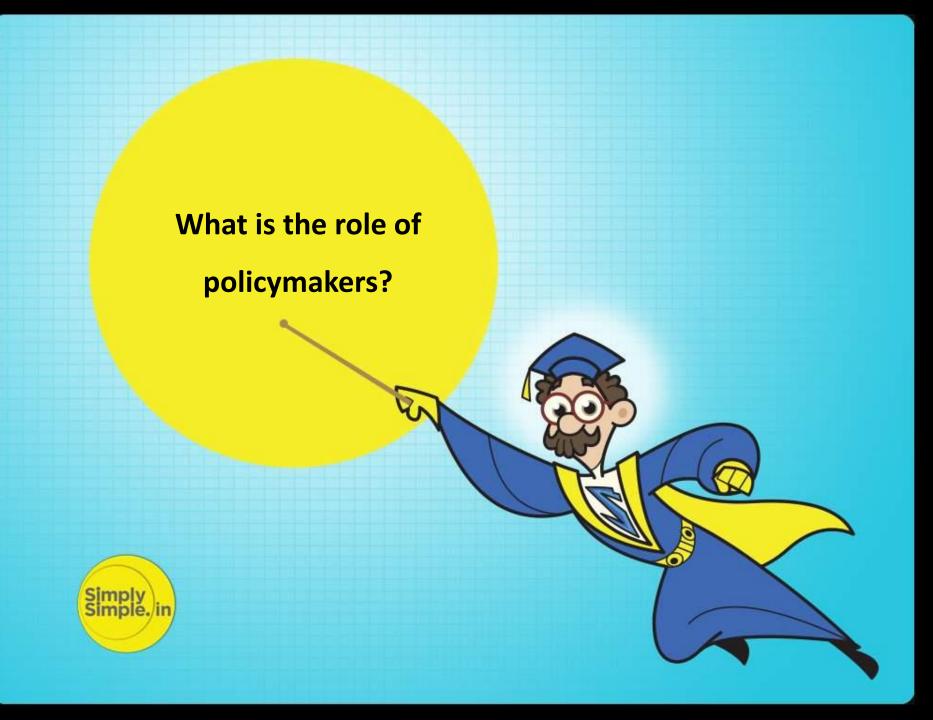
In phase 3 of a country's development, the dividend starts disappearing.

A growing desire for small families means that the baby boom is followed by a baby bust.

When the baby boomers begin to retire, the proportion of non-earning old people rises sharply and tends to reduce the income per head.

Few Examples: Japan, Germany, Russia, Italy etc.





The dividend period can only be considered as a window of opportunity rather than a guarantee of improved standards of living.

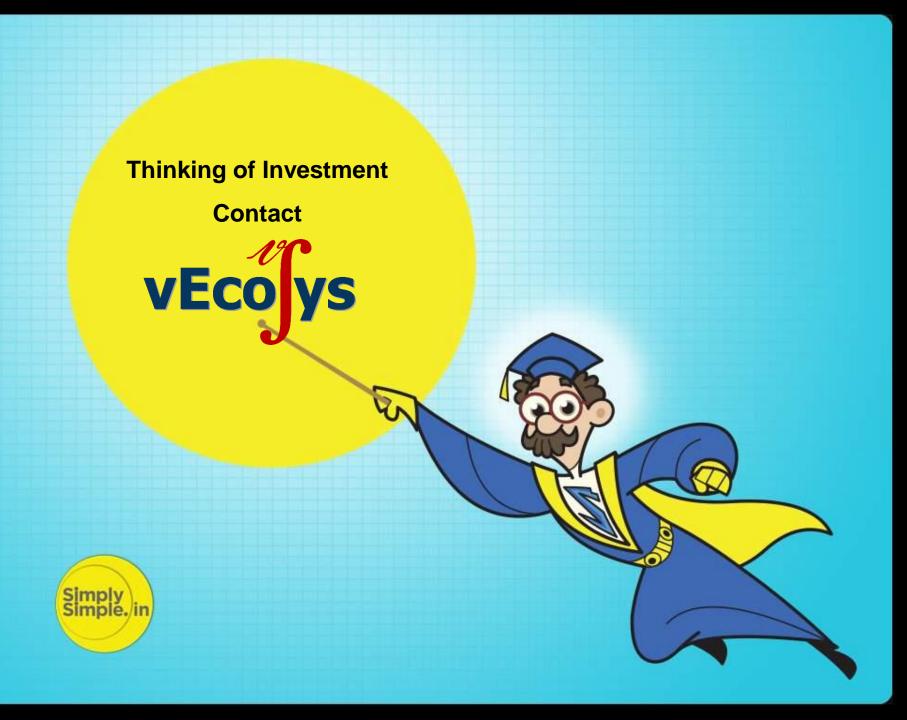
Only when a country capitalizes on the resources and uses them effectively will the economy benefit.

If right policies are not in place, a demographic dividend can turn into a demographic disaster.





Hope you have understood the concept of Demographic Dividend.



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